



COLLATERAL ELIGIBILITY

Nov. 4, 2020 | 10 a.m. CT

To maximize your ability to hear the webinar, we're muting all participants. Please keep your line muted.

ABOUT THE PRESENTERS



ELAINE SHUMAKER | AVP, Financial Services Manager

Elaine joined FHLBank in 1987. She held various positions until 1999 when she was promoted to Safekeeping Manager. She now oversees Financial Services, which includes safekeeping and collateral operations.



KYLIE MERGEN | VP, Director of Financial Services

Kylie joined FHLBank in 2007. She was a Collateral Review Analyst until September 2008 when she became the Collateral Review Manager. In January of 2017, Kylie was promoted to the Director of Financial Services and oversees the safekeeping and collateral operations as well as the collateral review and verification process.



GOALS & AGENDA

GOALS

- Expand knowledge of eligible collateral
- Insight into FHLBank's method of establishing collateral underwriting guidelines

AGENDA

- Why we have collateral guidelines
- Overview of Schedule of Eligible Collateral
- Question and Answer session



WHAT IS ELIGIBLE COLLATERAL?

Assets pledged by members to secure FHLBank credit obligations that comply with established underwriting requirements as published in the Member Products and Services Guide, specifically the Schedule of Eligible Collateral.



ELIGIBLE ASSET TYPES

Cash/FHLBank CDs

- Cash must be held in the member's Overnight Deposit account

Securities

- Securities must be safekept at FHLBank or an FHLBank approved third-party custodian

Loans

- Pledged via the Qualifying Collateral Determination (QCD) form or through the delivery process
- Institution owned



COLLATERAL PLEDGED (REPORTED) TO FHLBANK

- Total Collateral Pledged
 - Unpaid Principal Balance \$117 billion
 - Lending Value \$88.8 billion
- Loans Pledged – \$76.7 billion in lending value
 - Held at institution (545,088 loans)
 - Delivered to FHLBank (1,030 loans)
- Securities - \$12.1 billion in lending value
 - 4,056 securities
- Supporting Total Credit Obligations of \$25.4 billion



WHY DOES FHLBANK HAVE UNDERWRITING REQUIREMENTS?

Prudent Risk Management

- Allow us to adequately manage risk to protect our stockholders
- Establish transparent guidelines on acceptable collateral
- Provide members with a streamlined approach in identifying assets which can be pledged
- Identify homogeneous assets that are marketable and can be easily liquidated

To accept an asset as collateral, we must be able to:

- Perfect FHLBank's security interest in the asset
- Obtain a readily ascertainable value of the asset
- The asset must be reliably discounted/priced
- The FHLBank must be able to liquidate in due course



HOW DOES FHLBANK CREATE UNDERWRITING GUIDELINES?

Under each asset class, establish criteria to create groups that are homogenous

- Similar loan characteristics which allow us to group “like” loans together

Consider current market trends and conditions

- Similar perfection process
- Similar liquidation process
- Similar volatility components

Common troublesome loan characteristics

- Spec loans
- Interest only periods
- FICO/Debt to Income ratios
- Verification of Income/Employment
- High loan to values
- Debt Service Coverage Ratios



HOW DOES FHLBANK CREATE UNDERWRITING GUIDELINES?

Establish Lending Value

- Consists of three components
 - Credit Factor
 - Volatility Factor
 - Liquidation Factor

Abide by Regulatory Requirements and Advisory Bulletins

- Delinquency
- Loan Classifications
- Nontraditional, Subprime, and Anti-Predatory Lending Issues
- Appraisals, LTV, and DSCR
- Director Officer, and Employee loans
- Pace and Private Transfer Fees



WHERE DO I FIND ELIGIBILITY INFORMATION?

Member Products and Services Guide (MPSG)

- Collateral Guidelines – page 68
 - Information regarding overall collateral processes and requirements
- Schedule of Eligible Collateral – page 75
 - Definitions/ glossary of terms
 - Additional clarifications
- Underwriting guidelines – page 80
 - Temporary Coronavirus (COVID-19) Underwriting Requirements
 - Specific characteristics are identified for each asset classification which are required for eligibility



ASSET CATEGORIES

Unrestricted

- All Securities
 - Treasuries, Agencies Bonds and MBS/CMOs, CMBS, PLMBS/CMOs, SBAs
- Single Family Real Estate Loans
 - 1-4 Family Conventional, Interest Only
 - FHA/VA loans
 - Held-for-Sale Mortgages on 1-4 Family
- Multifamily Real Estate Loans
- Other Guaranteed Loans
 - PPP loans



ASSET CATEGORIES *(continued)*

Restricted

- Commercial Real Estate Loans
- Agricultural Real Estate Loans
- Second Mortgages/HELOCs
- Construction Loans
 - Residential, Multifamily, Commercial
- CFI Collateral
 - Ag Operating
 - Equipment



UNDERWRITING GUIDELINES - SECURITIES

Eligibility

- No Interest Only or Principal Only securities whose cash flows are derived from underlying collateral (i.e. CMO's)
- Prices must be readily available through the FHLBank's pricing vendors
- Prospectus may be required to determine security eligibility.
- Securities' underlying loan collateral cannot violate FHLBank's Anti-Predatory Lending policy
- Security Ratings from S&P, Moody's or Fitch
- Private issue residential mortgage pass-through and CMO securities' underlying loan collateral cannot:
 - Be secured by property subject to private transfer fee covenants that were created on or after February 8, 2011
 - Must comply with the Interagency Guidance on Nontraditional Mortgage Products Risks and Addendum to Credit Risk Management Guidance for Home Equity Lending if issued or acquired after July 10, 2007
 - Rating requirement must be greater than AA



UNDERWRITING GUIDELINES - LOANS

- Commonalities between asset categories
 - Wet signature
 - Fully secured
 - Loan to value (appraisal requirements for loans greater than \$250,000)
 - Located in the United States
 - Term Limitations
 - Wholly owned
 - No lease loans
 - No land development
 - No loans with PACE liens
 - No loans subject to private transfer fees
 - No director, officer, employee loans
 - No loans past due (90 days for SF/ 60 days all other assets)
 - No classified assets (substandard, doubtful, loss, non-accrual)
 - Not pledged to another creditor or in another asset category
 - Servicing/Custodial agreements, if applicable, must be on file



BIGGEST TOPIC OF DISCUSSION

“Wet” signature

- Electronic signatures vs scanned documents vs eNotes

WHAT AN eNOTE IS:

A note executed electronically
and stored in an eVault that
meets the requirements for an eNote

WHAT AN eNOTE IS NOT:

A scanned image of a wet ink signature or
a note with an electronic signature that is
not stored in an eVault and doesn't
meet eNote requirements

- Current Project Status
- <https://www.fhlbtopeka.com/products/collateral/enotes>



UNDERWRITING GUIDELINES - LOANS

Fully Secured

- A loan in which the fair market value of the asset or assets pledged as security for the loan exceeds the outstanding principal balance of the loan.
- Loan to value
 - Single Family – 100%
 - Multifamily, Commercial, Agricultural – 85%
 - Appraisal requirements for loans greater than \$250,000 (\$500,000 for some loans originated on or after April 9, 2018)
- Mortgage amount must equal or exceed outstanding principal amount
 - Future Advance Deeds of Trusts in Nebraska



UNDERWRITING GUIDELINES - LOANS

Located in the United States

- The underlying collateral is physically in the US

Term Limitation

- Unless specifically stated, term limitation for all assets of 360 months

Wholly owned

- Originated by your institution; you own 100%
- Originated by another institution; you purchased/acquired 100%
- Originated by your institution; you own less than 100% - can pledge net portion
- Originated by another institution; you purchased/acquired less than 100% - can pledge non-lead lender participations with special approval



UNDERWRITING GUIDELINES - LOANS

No Lease Loans

- A financing transaction in the form of a lease (structured financing)

No land development/vacant land

- Agricultural Real Estate is fine if it's actively worked as agricultural land
- No lots
- No subdivisions



UNDERWRITING GUIDELINES - LOANS

No loans with PACE Liens

- Energy retrofit program
- Takes first lien priority

No loans subject to Private Transfer Fees

- Fee assessed to seller when property changes ownership
- Found in title work and settlement statement



UNDERWRITING GUIDELINES - LOANS

No Director, Officer, or Employee loans

- Of your institution or FHLBank

No loans past due

- Single Family – 90 days
- All other assets – 60 days

No classified assets

- Substandard, Doubtful, Loss, Non-accrual
- Can be on Watch



UNDERWRITING GUIDELINES - LOANS

Not pledged to another creditor or in another asset category

- No splitting assets/loans between categories
- Cannot pledge to two entities

Servicing or Custodial agreements must be on file (if applicable)

- Third-Party Servicer
- Third-Party Custodian



UNDERWRITING GUIDELINES – SINGLE FAMILY LOANS

1-4 Family Conventional

- First Lien Position
 - Second lien goes in Second Mortgage Category
- Fully disbursed
 - No revolving lines of credit
- No Subprime characteristics
 - FICO less than 660 with a combined DTI greater than 50% (Test 1)
 - FICO less than 620, DTI greater than 55% without compensating factors (Test 2)
- No Nontraditional characteristics
 - Income/employment verification
 - Simultaneous Seconds
 - ARM loans – borrower qualified using fully indexed rate



UNDERWRITING GUIDELINES – SINGLE FAMILY LOANS

1-4 Family Conventional (continued)

- No Predatory characteristics
 - Mandatory Arbitration
 - High fees/rates (HOEPA)
 - Prepayment Penalties
 - Single-Premium Credit Life/Disability
- No Reverse Mortgages
- One-time close construction to permanent financing loans
 - Term to maturity begins with conversion date to maturity

Interest Only

- Only difference from 1-4 Family Conventional is minimum FICO of 680



UNDERWRITING GUIDELINES – SINGLE FAMILY LOANS

FHA/VA Loans

- Must comply with the Agency's underwriting guidelines
- Certificate or Guarantee present
- Can be 90 days past due – lending value based on the guaranteed portion
 - Special entry on the QCD form

Held For Sale

- Agency Eligible
- Non-Agency Eligible
- QCD form vs daily reporting



UNDERWRITING GUIDELINES – MULTIFAMILY LOANS

Multifamily

- 5 or more units
- Interest Only 7 years or less (*NEW*)
- Maximum LTV of 85%
- DSCR \geq 1.00
- Appraisals after April 9, 2018 must be prepared by licensed or certified appraiser for loans with an original amount greater than \$500,000



UNDERWRITING GUIDELINES – COMMERCIAL LOANS

Commercial Real Estate

- Interest Only 7 years or less (*NEW*)
- Maximum LTV of 85%
- DSCR \geq 1.00
- Phase 1 requirements
- No vacant land/land development, must be secured by CRE property
- No leasehold estates
- Cannot be secured by a property used for marijuana-related business
- Appraisals after April 9, 2018 must be prepared by licensed or certified appraiser for loans with an original amount greater than \$500,000



UNDERWRITING GUIDELINES – AG REAL ESTATE LOANS

Agricultural Real Estate

- Maximum LTV of 85%
- Interest only limited to 18 months (require financial statement)
- No vacant land, must be for agricultural purposes
- No leasehold estates
- Cannot be secured by a property used for marijuana-related business
- No loans with a guarantee from USDA Farm Service Agency (FSA) Guaranteed Farm Loan Program



UNDERWRITING GUIDELINES – SECOND MORTGAGE LOANS

Second Mortgages

- Second lien position
- 1-4 family properties only
- Fully disbursed
- No subprime/non-traditional/predatory characteristics
- No negative amortization
- Maximum CLTV of 100%



UNDERWRITING GUIDELINES – HOME EQUITY LINES OF CREDIT (HELOC) LOANS

Home Equity Lines of Credit (HELOCs)

- First or second lien position
- 1-4 family properties only
- Revolving Line of Credit acceptable
- No subprime/non-traditional/predatory characteristics
- No negative amortization
- Maximum CLTV of 100%



UNDERWRITING GUIDELINES – RESIDENTIAL CONSTRUCTION LOANS

Residential Construction

- No spec loans
- No subprime/non-traditional/predatory characteristics
- No Negative Amortization
- Interest only or principal payments required
- One-time close construction to permanent financing loans allowed
- Initial advance period of 12 months
- Total term may not exceed 18 months
- LTV will be based on the proposed value on the appraisal, up to 100%



UNDERWRITING GUIDELINES – AG OPERATING LOANS

CFI Collateral – For Community Financial Institutions Only

- Ag Operating
 - Secured by crops and/or livestock and/or in combination with Ag real estate
 - If interest only, limited to 18 month term
 - Revolving Line of Credit (LOC) allowed
 - No Carryover Debt
 - Cannot be secured by property/crops to be used for marijuana-related business
 - No loans with a guarantee from USDA Farm Service Agency (FSA) Guaranteed Farm Loan Program



UNDERWRITING GUIDELINES – AG OPERATING LOANS

CFI Collateral – For Community Financial Institutions Only

- Equipment
 - Secured by equipment
 - No interest only or negative amortization loans
 - Fully disbursed
 - No Carryover Debt
 - Cannot be secured by property/equipment to be used for marijuana-related business
 - No loans with a guarantee from USDA Farm Service Agency (FSA) Guaranteed Farm Loan Program



UNDERWRITING GUIDELINES – LOANS RECAP

Specific to certain asset categories

- Interest only terms
- Subprime/predatory/non-traditional characteristics
- Leasehold
- Appraisal requirements
- LTV requirements
- Phase 1 requirements
- Revolving LOC
- Cannot be secured by marijuana-related property/crops/equipment
- Loans with a guarantee from USDA FSA Guaranteed Farm Loan Program



CASE-BY-CASE COLLATERAL

Case-by-case Collateral Approval Process

- Requires a written formal request
- Scale the request (number of loans, dollar amount impacted)
- Provide documentation of loan characteristics and any other supporting information
- Evaluation by management prior to pledging
 - Acceptability
 - Lending value impacts
 - Collateral needs
- Case-by-case fee



Q&A

ACCURATE REPORTING OF ELIGIBLE COLLATERAL

- Determines borrowing capacity at FHLBank
- Maximizes liquidity by allowing non-liquid assets to be used as collateral
- Reduces expenses associated with collateral verifications



EDUCATIONAL OPPORTUNITIES

Upcoming Webinars

- **2020 Virtual Regional Meeting with Esther George**
 - Nov. 13, 2020 – 9 to 11 a.m.

- **Advance Your Thinking Webinar Series**
 - Analyzing Your Liquidity – Nov. 17 or 18, 2020
 - Identifying Hidden Collateral – Dec. 16, 2020



EDUCATIONAL OPPORTUNITIES

Annual Management Conference

- Overland Park, Kansas | April 21-23, 2021

Regional Meetings

- August through October in Colorado, Kansas, Nebraska and Oklahoma
 - August 30, 2021 – Lincoln, NE
 - September 27, 2021 – Lawrence, KS
 - October 14, 2021 – Oklahoma City, OK
 - Colorado meeting date is being finalized

Collateral Review Contact

- One-on-one guidance



HELPFUL RESOURCES



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FHLBank Topeka Website | www.fhlbtopeka.com

Collateral Landing Page | www.fhlbtopeka.com/Products/collateral

Member Products & Services Guide | www.fhlbtopeka.com/mpsg

